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Report Highlights:

Russia's 2007 grain crop forecast is lowered to 78.0 million metric tons (mmt), including 44.3 mmt of wheat, 17.1 mmt of barley, and 4.8 mmt of corn, due to drought in the major spring grain producing regions south of Volga Valley and in Rostov oblast. The grain export forecast is 11.8 mmt, including 10.1 mmt of wheat, 1.5 mmt of barley, and 200,000 tons of corn.

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Executive Summary

Russia's grain crop forecast is lowered to 78.0 million metric tons (mmt), including 44.3 mmt of wheat, 17.1 mmt of barley, and 4.8 mmt of corn, due to spring/early summer drought in the major spring grain producing regions south of Volga Valley and in Rostov oblast. The grain exports forecast is 11.8 mmt, including 10.1 mmt of wheat, 1.5 mmt of barley, and 200,000 tons of corn.

Production

Russia's grain crop estimate has fallen to 78.0 mmt, including 44.3 mmt of wheat, 17.1 mmt of barley, and 4.8 mmt of corn. The decrease is due to a drought in some important grain producing regions, specifically in Volgograd and Orenburg oblasts, and in southern Rostov oblast. Drought has primarily affected spring grains. The situation in other regions of Russia has not been much different from last year, with total grain production output in European Russia is forecast slightly lower than last year. Expectations of average to better than average yields in Siberia and Urals are based on the assumption that fall weather in these regions will be normal, or better than normal. Unfavorable weather during the harvest period in these regions will result in the further decrease in the total grain yield.

The Russian Ministry of Agriculture's grain production estimate for 2007 is 76.0 mmt. Experts' estimates of the grain harvest vary from 74.0 mmt to 79.0 mmt.

The total area sown for spring grains is estimated at 31.0 million hectares (ha), 1.15 million hectares fewer than in 2006. The biggest decrease of spring grain area was in the Volga Valley Federal district – with an 820,000 ha reduction, including a 100,000 ha decrease in the Bashkortostan republic area, and 250,000 ha reductions in both Saratov oblast and Orenburg oblast.

Harvested winter grain area will be higher than last year, the result of much better survival of winter grain crops. The total harvested area for 2007 grain is estimated to be between 43.4 million ha and 43.8 million ha¹.

Winter grain yields are forecast to be the same as last year, but yields of spring grains will be lower than average in the major grain producing territories of European Russia.

Consumption

Lower than expected grain crop forecasts, along with increasing domestic and international grain prices, will create tension between domestic feed consumption and exports. Food domestic consumption is assumed stable, although increasing grain prices may stimulate Russian flour millers and bakers to lobby for reduced grain exports, and, given the election this year², the Russian government will be very sensitive to rising bread prices. In the meantime, grain market experts agree on the amount of grain for food use, leaving these figures unchanged between 18.0 and 19.5 mmt, while speculating primarily about feed use and exports. Estimates of "needs" in grain for feeding in 2007 vary from 25.0 mmt to 37.0 mmt. The last assumption is calculated based on the optimal norms of grain feeding per capita of existing herds of livestock and poultry. There has been noted improvement in the poultry industry, and an increase in industrial feeding at commercial farms. However there

¹ Source; SovEcon

² In December 2007 Russia will re-elect the State Duma (equivalent of House of Representatives in the U.S.), and Russian Presidential elections will be held in March 2008.

are still significant grain losses at feeding in the small households, which still account for a large portion of meat and milk producers. There is misuse of feed grain in the grain-abundant territories due to a lack of feed mills and poor logistics of grain transportation and handling. Considering these factors, the feed use domestic consumption is forecast at 34.0 mmt.

Trade

Given high international grain prices and forecasts of continued reduction of world carryover grain stocks, incentives for strong exports of Russian wheat and barley will continue through MY 2007/2008. Assuming that weather in Russia in the remaining months will enable a harvest of 78.0 mmt, or even 76.0 (the Russian Ministry of Agriculture's forecast), Russia may export 11.8 mmt of grain, including 10.1 mmt of wheat and 1.5 mmt of barley. Most Russian grain analysts agree that these export volumes are possible, but remark that the election year in Russia makes government policy, including possible tariff or quota regulation of grain exports, less predictable than ever.

Policy

Until now the government policy concerning the grain industry has remained unchanged, with only one exception. On June 5, 2007, the executive committee of the Federal Tariffs Service of the Russian Federation (FST) approved an exclusive tariff for grain shipments by rail in the Siberian and the Far Eastern federal districts. The tariff will be a 50% discount on the initial tariff and will apply to shipments traveling more than 1,100 km. The discount applies to grain that is being shipped to Far Eastern ports for export, but does not concern the transit of grain. This is a step toward decreasing transportation expenses reflected in the price of grain exports, but this measure will influence only the small portion of Russian grain that is produced in Siberia. The Russian Government has not supported the request of the Russian Grain Union on the shift of all grain cargoes from the second to the first category of railroads fees.

At the end of June 2007, the Russian Government decided that Russia should accede to the Grain Trade Convention. This measure is a step toward better coordination of Russian grain export policy with rules of the international grain market. However, the results of this decision will not affect Russian policy this year.

Non-tariff restrictions on grain exports, imports, and handling of grain in the domestic market are still in effect, such as request for grain quality certification at the VPSS³ and requests for fumigation of means of transportation at the VPSS's authorized bodies. According to experts and grain traders, the functional effectiveness of the grain market has been hampered by strengthening bureaucracy at all levels, which means rising numbers of certificates, permits, increase charges for non-requested services, etc.

PSDs

Wheat

The wheat production forecast has fallen to 44.3 mmt. This year, exports of wheat will decrease by 500,000 tons to 10.1 mmt due to a smaller crop and strong demand from the domestic market. Feed domestic consumption will remain at 14.1 mmt, and end of year stocks will decrease to one of the lowest levels in the last 5 years.

³ For more information see GAIN Reports RS6062 and RS7010

MY 2006/07 exports are estimated at 10.6 mmt, given that from July 2006 through May 2007, Russia already exported 10.06 mmt of wheat and an equivalent of 220,000 metric tons of grain in wheat flour. Monthly wheat exports increased between March and May, stimulated by high world prices, but experts say that domestic wheat resources for export were exhausted by the beginning of June.

PSD Table										
Country	Russian Federation									
Commodity	Wheat						(1000 HA)	(1000 MT)	(MT/HA)	
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY
Area Harvested	25400	25400	25400	23700	23040	23700	24300	23400	24200	(1000 HA)
Beginning Stocks	3891	3891	3891	3809	3809	3809	2609	2809	2609	(1000 MT)
Production	47700	47700	47700	44900	44930	44900	45000	45800	44300	(1000 MT)
MY Imports	1282	1282	1282	1200	1200	1000	1200	1200	1200	(1000 MT)
TY Imports	1282	1282	1282	1200	1200	1000	1200	1200	1200	(1000 MT)
TY Imp. from U.S.	4	4	4	0	0	0	0	0	0	(1000 MT)
Total Supply	52873	52873	52873	49909	49939	49709	48809	49809	48109	(1000 MT)
MY Exports	10664	10664	10664	10700	10800	10600	10500	10500	10100	(1000 MT)
TY Exports	10664	10664	10664	10700	10800	10600	10500	10500	10100	(1000 MT)
Feed Consumption	14900	14900	14900	14100	14200	14100	14200	14600	14100	(1000 MT)
FSI Consumption	23500	23500	23500	22500	22130	22400	22000	21900	21900	(1000 MT)
Total Consumption	38400	38400	38400	36600	36330	36500	36200	36500	36000	(1000 MT)
Ending Stocks	3809	3809	3809	2609	2809	2609	2109	2809	2009	(1000 MT)
Total Distribution	52873	52873	52873	49909	49939	49709	48809	49809	48109	(1000 MT)
Yield	1.88	1.88	1.88	1.89	1.95	1.89	1.85	1.96	1.83	(MT/HA)

Barley

The barley production forecast has been lowered to 17.1 mmt, with exports 100,000 tons lower than in MY 2006/07 due to high foreign demand for barley. Sustaining high levels of barley exports will decrease availability of barley for feeding, and feed domestic consumption will decrease to 11.6 mmt. End of year carry-over stocks will be low – less than 1.0 mmt.

PSD Table										
Country	Russian Federation									
Commodity	Barley						(1000 HA)	(1000 MT)	(MT/HA)	
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2005	07/2005		07/2006	07/2006		07/2007	07/2007	MM/YYYY
Area Harvested	9150	9150	9150	10000	9575	10000	10000	9500	9900	(1000 HA)
Beginning Stocks	2110	2110	2110	873	934	873	1173	1084	1073	(1000 MT)
Production	15800	15800	15800	18100	18100	18100	17500	18000	17100	(1000 MT)
MY Imports	189	190	189	200	200	200	200	180	200	(1000 MT)
TY Imports	188	190	188	200	200	200	200	180	200	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Supply	18099	18100	18099	19173	19234	19173	18873	19264	18373	(1000 MT)
MY Exports	1726	1726	1726	1600	1700	1600	1600	1800	1500	(1000 MT)
TY Exports	1397	1397	1397	2000	1700	2000	1600	1800	1500	(1000 MT)
Feed Consumption	10900	10900	10900	11800	11850	11900	11600	12000	11600	(1000 MT)
FSI Consumption	4600	4540	4600	4600	4600	4600	4500	4400	4400	(1000 MT)
Total Consumption	15500	15440	15500	16400	16450	16500	16100	16400	16000	(1000 MT)
Ending Stocks	873	934	873	1173	1084	1073	1173	1064	873	(1000 MT)
Total Distribution	18099	18100	18099	19173	19234	19173	18873	19264	18373	(1000 MT)
Yield	1.73	1.73	1.73	1.81	1.89	1.81	1.75	1.89	1.73	(MT/HA)

Corn

Sown area for corn increased significantly in 2007, including in territories where corn for grain production is less reliable. Therefore, even with favorable weather, yields will be lower than in 2006. However, corn production is forecast at a record high of 4.8 mmt. Feed consumption is forecast at 3.7 mmt, while exports are forecast at 200,000 tons.

PSD Table										
Country	Russian Federation									
Commodity	Corn						(1000 HA)	(1000 MT)	(MT/HA)	
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Area Harvested	850	850	850	1000	1150	1000	1400	1150	1400	(1000 HA)
Beginning Stocks	241	241	241	144	144	144	194	224	194	(1000 MT)
Production	3200	3200	3200	3600	3630	3600	5000	3800	4800	(1000 MT)
MY Imports	306	306	306	250	250	250	50	200	50	(1000 MT)
TY Imports	306	306	306	250	250	250	50	200	50	(1000 MT)
TY Imp. from U.S.	15	15	15	0	0	0	0	0	0	(1000 MT)
Total Supply	3747	3747	3747	3994	4024	3994	5244	4224	5044	(1000 MT)
MY Exports	53	53	53	100	100	100	300	100	200	(1000 MT)
TY Exports	53	53	53	100	100	100	300	100	200	(1000 MT)
Feed Consumption	3000	3000	3000	3200	3200	3200	3500	3350	3700	(1000 MT)
FSI Consumption	550	550	550	500	500	500	750	550	650	(1000 MT)
Total Consumption	3550	3550	3550	3700	3700	3700	4250	3900	4350	(1000 MT)
Ending Stocks	144	144	144	194	224	194	694	224	494	(1000 MT)
Total Distribution	3747	3747	3747	3994	4024	3994	5244	4224	5044	(1000 MT)
Yield	3.76	3.76	3.76	3.6	3.16	3.6	3.57	3.30	3.43	(MT/HA)